



# TRANSFORMING RENTAL ASSISTANCE (TRA)

## A Presentation on the Future of HUD's Rental Assistance Programs

Department of Housing  
and Urban Development





# THE CURRENT STATE

- HUD provides deep rental assistance to more than **4.8 million households** across **multiple programs** with **varying rules**
- Current programs **lack sufficient market discipline** and **resident choice**
- Much of the assisted stock was developed more than 30 years ago; the portfolio has an enormous backlog of unmet **repair and replacement needs**
- Billions of dollars of federal investment are **being lost** for future generations





# CURRENT STATE: CAPITAL DISINVESTMENT



In the past 15 years, 150,000 public housing units have been lost.





# TRANSFORMATION FUTURE STATE

Move subsidized housing into the mainstream housing market.

HUD-assisted housing must be built, financed, and managed in a way that **attracts a mix of uses, incomes, and stakeholders** that will make rental assistance programs truly successful.







# TRANSFORMATION VISION

- **Streamline** rental assistance programs
- **Simplify** program administration
- **Leverage** private funding to meet capital needs backlog
- **Introduce** greater market discipline
- **Enhance** tenant choice
- **Expand resident access** to a broader range of neighborhoods





## TRANSFORMATION LONG-TERM OBJECTIVE

**Toward a single platform** for major Federal rental assistance programs.

**Three programs within Section 8:**

- Project based contracts (**PBCs**)
- Project based vouchers (**PBVs**)
- Tenant based vouchers (**TBVs**)





## CONVERSION

# GENERAL POLICIES

- **Voluntary**
- Converted properties will be assisted under either a **project-based contract** (PBC) with HUD or a **project-based voucher** (PBV) contract with a housing authority.
  - PBV available only to **small** or **partially assisted** properties
- Converting owners will be required to **maintain the same number of deeply affordable units**; and **consult with residents** in advance of and during conversion.
- In the event of foreclosure, **affordability restrictions remain in place**, whether or not the loan is FHA insured.
- Contract rents will cover **operating costs**, deposits to the **capital replacement reserve**, **debt service**, and **cash flow**.





## CONVERSION

# PHASE ONE ELIGIBLE PROPERTIES

- Public housing
- PHA-owned Multifamily properties
- Rent Supplement program
- Rental Assistance Program
- Section 8 Moderate Rehabilitation Program
- Other federal affordable housing programs, as identified by the Secretary by notice







## CONVERSION

# PUBLIC HOUSING PROPERTIES

| Current Structure                   | TRA  |
|-------------------------------------|--|
| Operating Fund<br>+<br>Capital Fund | Housing Assistance Payment<br>Contract (HAP) |
| Declaration of Trust                | Use Agreement                                |

- Continued **public control**
- Minimum **30-year use restriction**
- **20-year HAP**
- Owner must accept extensions





## RESIDENT CHOICE, PARTICIPATION, AND RIGHTS

# RESIDENT CHOICE

Recipients of HUD-funded rental assistance should not have to sacrifice affordability if they need or want to move.

- After **two years** in the converted property, residents have option to move using a **housing choice voucher**, subject to availability
- Property based subsidy **remains with the unit**
- Part of a broader set of administrative changes intended to promote **informed choice** and **real mobility options**

Later stages **may need to constrain choice** if demand exceeds available supply of vouchers.





## RESIDENT CHOICE, PARTICIPATION, AND RIGHTS

# RESIDENT PARTICIPATION

- PHAs and owners required to **consult with residents** before, during, and after the conversion process
- PHAs required to have **at least one tenant on their board**
- No changes to **annual planning requirements**





# RESIDENT CHOICE, PARTICIPATION, AND RIGHTS

## RESIDENT RIGHTS

- **Income-based rents** and **security of tenure**
  - No re-screening
  - Evictions only for good cause
- **Procedural rights**
  - Notice requirements
  - Required elements of due process
- **Organizing rights**
  - Right to organize and be recognized by owners
  - Funding for organizing
- **Section 3**
  - Hiring and contracting requirements continue to apply
  - Hiring preferences uniform across programs





# TRA: WHERE DO WE START?

The President's FY11 budget requests \$350 million for TRA Phase One. This is expected to allow 280,000 public housing and multifamily units to access investments for renovation and repair.

- **\$290 million** would cover the supplemental cost of converting public housing and assisted housing units to long-term property-based contract Section 8 contracts
- **\$50 million** would support resident choice
- **\$10 million** would be for technical assistance and evaluation







# TRA RESULT: PROPERTY IMPROVEMENTS

- **Preserve and rehabilitate** aging public and assisted housing properties and improve energy efficiency
- Capital influx will create **new jobs for residents** and the community
- Ongoing, the long-term Section 8 contracts will include funds for replacement reserves so that **projects will be in a position to address repair and replacement needs as they arise.**





# CONVERSION COST METHODOLOGY

+ Operating Fund Eligibility  
+ Capital Fund Grant

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PH program cost

vs.

Gross Rent  
- Total Tenant Payment  
+ PBCA Admin Fee

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Conversion subsidy cost





CONVERSION

# LEVERAGING METHODOLOGY

## Financing pro-forma

|   |                      |
|---|----------------------|
|   | Revenue              |
| - | Expenses             |
|   | Net Operating Income |
| - | Debt service         |
|   | Cash flow            |





## RENT SETTING

# HAP RENTS FOR CONVERTED PROPERTIES

- HAP rents would be set at a level needed to **address capital needs** and **sustain operations**.
- HAP rents could not exceed comparable market above **110% of FMR** without Secretary's approval.
  - For projects requiring above-market rents to ensure sustainability, the Secretary is **authorized to approve "exception rents,"** i.e., the higher of (1) 110% of FMR or (2) 120% of comparable market rent (but not higher than the rent needed to address capital needs and sustain operations)
- Rents would be **adjusted annually** based on a multifamily market rent index and would be **rebenchmarked** to market at least every 5 years.





## RENT SETTING

# HAP EXCEPTION RENTS

| Rents Needed or Requested | No Secretary Approval Required | Secretary May Approve *                       |
|---------------------------|--------------------------------|---|
| At or below market**      | 110% of FMR or below           | Greater than 110% of FMR                      |
| Above market              | n/a                            | Up to higher of 110% of FMR or 120% of market |

**\*Properties must also meet test of preservation-worthiness.**

**\*\*The Secretary may approve or determine a rent lower than market if such lower rent is sufficient to meet the financial and physical sustainability needs of the property.**







## RENT SETTING

# HAP RENT ILLUSTRATION

| HIGHER-COST MARKET           | PBC     | PBV     |
|------------------------------|---------|---------|
| Rent needed or requested     | \$940   | \$940   |
| 110% of FMR                  | \$1,000 | \$1,000 |
| Comparable market rent (CMR) | \$920   | \$920   |
| 120% of CMR                  | \$1,100 | n/a     |
| Allowable rent               | \$940   | \$920   |

| LOWER-COST MARKET            | PBC   | PBV   |
|------------------------------|-------|-------|
| Rent needed or requested     | \$940 | \$940 |
| 110% of FMR                  | \$880 | \$880 |
| Comparable market rent (CMR) | \$800 | \$800 |
| 120% of CMR                  | \$960 | n/a   |
| Allowable rent               | \$940 | \$800 |





## CONVERSION

# CONVERSION COSTS

| Additional Annual Program Costs |                     | Capital Leverage Potential* |                     | Cost per Unit (1,177,893 units) |                     |
|---------------------------------|---------------------|-----------------------------|---------------------|---------------------------------|---------------------|
| 2010 Enacted Levels             | 2011 Budget Request | 2010 Enacted Levels         | 2011 Budget Request | 2010 Enacted Levels             | 2011 Budget Request |
| \$0.90 billion                  | \$1.26 billion      | \$26.90 billion             | \$26.90 billion     | \$767                           | \$1,066             |

\*The amount of capital leveraged is independent of public housing program funding, i.e., the same for 2010 enacted or 2011 budget levels.

First phase will allow PHAs to **leverage up to \$7 billion** in private capital





## CONVERSION

# CAPITAL LEVERAGING POTENTIAL

| Capital Leveraging Potential<br>Per Unit | Units   | Percentage |
|--|---------|------------|
| Between \$0 and \$9,999                  | 50,363  | 4.28%      |
| Between \$10,000 and \$19,999            | 145,486 | 12.35 %    |
| Between \$20,000 and \$24,999            | 107,132 | 9.10%      |
| \$25,000                                 | 874,912 | 74.28%     |





# **OVERVIEW OF THE PRESERVATION, ENHANCEMENT, AND TRANSFORMATION OF RENTAL ASSISTANCE ACT OF 2010 (PETRA)**





## OVERVIEW OF LEGISLATIVE PROPOSAL

# NEW SECTION 8 AUTHORITY

PETRA would authorize **two new sections** in the U.S. Housing Act of 1937:

- **Section 8(m)**
  - Section 8(m)(1) would **streamline policies** across rental assistance programs
  - Section 8(m)(2) would authorize the **conversion** of rental assistance
- **Section 8(n)**
  - Would authorize the Secretary to enter into **long-term, property-based contracts** for rental assistance, subject to annual appropriations, with owners of converting properties.







## OVERVIEW OF LEGISLATIVE PROPOSAL

# SEC. 8(m): KEY FEATURES

Section 8(m)(1) would authorize the Secretary to:

- **Allocate funds** to owners of converting properties;
- **Establish and collect fees** for one-time expenses of conversion;
- Recover previously obligated funds and deposit them into a **“Rental Assistance Conversion Trust Fund”**; and
- Allocate amounts for **other activities**, such as rental assistance administration and the promotion of resident mobility.

Section 8(m)(2) establishes conditions and features to govern the voluntary **conversion process**.





## OVERVIEW OF LEGISLATIVE PROPOSAL

# UNIFORM POLICIES AND PROCEDURES

To promote the streamlining of rental assistance programs, for converting properties and for other HUD-funded rental assistance programs, the Secretary would be authorized under Section 8(m)(1) to establish **uniform policies and procedures**, including with respect to the following areas:

- Resident choice
- Tenant organization rights
- Applicant and tenant procedural rights
- Nondiscrimination and affirmatively furthering fair housing
- Administration of rental assistance
- Physical condition standard
- Properties in foreclosure or bankruptcy
- HUD enforcement





- **Conversion can be approved in a single process without applying for Section 18 disposition**
  - Establishment of new ownership structure not considered disposition so long as PHA retains interest, assuring continued public control
- **Residents must be consulted** about application for conversion, which is a “significant amendment” of PHA plan
- **Resident membership on PHA board** is retained
- **Compliance with terms and conditions of:**
  - Energy performance contracts
  - Capital Fund Financing Program
  - Operating Fund Financing Program
  - And similar obligations in effect prior to conversion



## OVERVIEW OF LEGISLATIVE PROPOSAL

# SEC. 8(n): KEY FEATURES

Section 8(n) would authorize the Secretary to enter into **long-term, property-based contracts** for rental assistance with owners of converting properties, subject to annual appropriations

- **20-year initial contract term** for public housing; for other properties, term at least equal to remaining term of legacy contract
- **20-year extensions**, subject to appropriations
- Selection of tenants and targeting
- **Physical condition** standard and **financial reporting** requirements
- Initial **rent-setting** and **rent adjustments**





## OVERVIEW OF LEGISLATIVE PROPOSAL

# PRESERVATION TOOLS

PETRA policies to assure that properties **remain affordable for the long-term**, including:

- For former public housing, a **minimum 30-year use agreement** and required acceptance of extension, regardless of ownership structure
- **Enhanced enforcement powers** for HUD
- Rental assistance contract and use agreement would **survive foreclosure or bankruptcy**
- HUD authority to **transfer rental assistance** if contract breached or in event of foreclosure or bankruptcy
- **Federal option to purchase** at end of contract; use agreement
- **Hard 1-for-1 replacement** with exception for weak markets where vouchers are easy to use in low-poverty areas (estimated to be less than 10% of housing stock)







## OVERVIEW OF LEGISLATIVE PROPOSAL

# TENANT RIGHTS

- **Independent tenant organizations, with HUD funding**
  - Legitimate tenant organizations must be recognized by PHAs and owners
  - For HCV participants as well as tenants of converted properties (and possibly other programs)
- **No rescreening or termination because of conversion**
- **Relocation**
  - Right to return if relocation occurs during or after conversion
  - Expenses covered (rental assistance may be used)
- **Statutory requirements for elements of reviews of eligibility denials and other adverse actions**
- **Resident choice option**
- **Tenant protection vouchers** if contract and use agreement terminate





## OVERVIEW OF LEGISLATIVE PROPOSAL

# CHANGES TO EXISTING SEC. 8 PBV AUTHORITY

- Allows **up to 25% of HCVs** to be **project-based**, if at least 5% are used for **supportive housing** or in locations where vouchers are **difficult to use**.
  - Sets cap by the number of vouchers – not funding – to remove disincentive to project-base in higher-cost areas.
- For converted properties, agencies may **project-base up to 40%** of vouchers.
- Would allow for assistance at the greater of **25 dwelling units or 25 percent of dwelling units in a project**
  - Continue to allow some fully assisted developments
  - Authorizes the Secretary to establish additional oversight requirements for properties with assistance on more than 40 percent of units.
- Retains current policy of permitting exercise of **resident choice option after 1 year**.





## OVERVIEW OF LEGISLATIVE PROPOSAL

# STREAMLINING CHANGES TO PBV ASSISTANCE

Conversion to PBV assistance permitted only for “**small**” or **partially assisted** properties.

Uniform Policies for Converted and New Properties include:

- Maximum contract term extended to **20 years**
- Rents could be **adjusted annually based on a multifamily market rent index**
- **Exceptions to the rent cap** of 110% FMR would be permitted, but all rents must be “reasonable” in light of market
- Owners would be permitted to adopt **site-based waiting lists**
- Eviction for **good cause only**





## OVERVIEW OF LEGISLATIVE PROPOSAL CONFORMING AMENDMENTS

**Sec. 6** of PETRA would authorize conforming amendments in a number of areas, including:

- **Definition of a public housing agency:** To promote streamlining of programs and administration, will include not-for-profit entities and more flexible contracting with consortia
- **Mainstream voucher renewals:** Shifted to HCV rules and the tenant-based rental assistance account.
- **Section 3 requirements:**
  - Converted properties would remain subject to the requirements that were in effect prior to conversion.
  - Priorities would be streamlined, made uniform
- **Enforcement:** The availability of civil money penalties would be extended to PHAs administering rental assistance





# PHASE ONE IMPLEMENTATION TIMELINE

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If legislation is enacted in **2010**:

- Program Announcement/Invitation: **Early 2011**
- Selections: **Mid/late 2011**
- Underwriting: **Late 2011/mid 2012**
- Rehabilitation: **2012 – 2013**





# TRA EVENTS AND RESOURCES

## Attend the TRA Town Hall

May 19 in the Brooke-Mondale Auditorium

## Visit the TRA Web page

[http://portal.hud.gov/portal/page/portal/HUD/fy2011budget/signature\\_initiatives/transforming\\_rental\\_assistance](http://portal.hud.gov/portal/page/portal/HUD/fy2011budget/signature_initiatives/transforming_rental_assistance)

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